



RSA-1 Deferred Compensation Plan

Catch-up, Rollovers, Transfers,
Withdrawals, Distributions,
& Tax Information



The Retirement
Systems of
Alabama

Contact RSA-1

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Building Location

201 South Union Street
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Business Hours

8:00 a.m. - 5:00 p.m.
Monday - Friday

Introduction

The Retirement Systems of Alabama (RSA) is pleased to provide you with the RSA-1 Deferred Compensation Plan distribution issues brochure. This brochure is an important part of our commitment to provide RSA-1 members with important information pertaining to RSA-1 withdrawals, distributions, catch-up, rollovers, transfers, and tax information. Please read this brochure carefully and contact RSA-1 with any questions you may have about the RSA-1 Deferred Compensation Plan.

The information in this brochure is based on Section 457 of the Internal Revenue Code of the United States and is authorized by §36-27A-1, et. seq., Code of Alabama 1975. This brochure is not intended as a substitute for the Internal Revenue Code nor will its interpretation prevail should a conflict arise between its content and Section 457 of the Internal Revenue Code. Do not rely solely upon the information provided in this brochure to make any decision regarding distributions with RSA-1, but contact RSA-1 directly with any questions you may have.

Cover photos (from left to right): Highland Oaks, Dothan;
Riverview Plaza Hotel, Mobile; Marriott Shoals Hotel & Spa,
Florence

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General Information

RSA-1 Administration

RSA-1 is an eligible deferred compensation plan as defined by Section 457 of the Internal Revenue Code of the United States and is authorized by §36-27A-1, et. seq., Code of Alabama 1975, as amended. As an RSA-1 member, you have been making deferrals to your RSA-1 account to be distributed to you at a later determined date, usually at retirement or other termination of service. Because receipt of the income is deferred, the deferred income is not included in your federal or state of Alabama gross taxable income. The deferred income is invested for your benefit.

Investment earnings are accumulated in the fund and like the deferred income, are not subject to federal or state of Alabama income taxation until distributed to you. Deferred income and investment earnings are held in your account for your exclusive benefit and your beneficiaries.

Unlike other funds, there are no administrative, membership, investment, transaction, sales or commission fees for participating in the RSA-1 Deferred Compensation Plan. All the money you defer and all investment earnings are placed into your account and invested by RSA-1.

RSA-1 is administered by the Secretary-Treasurer of the Employees' Retirement System under the supervision and direction of the PEIRAF Board of Control, which is composed of members of the investment committees of the Teachers' and Employees' Boards of Control. This board is authorized to make the rules and regulations governing RSA-1 in conformance with the requirements of the Internal Revenue Code.

The administrative cost for the operation of RSA-1 is provided from the expenses of the

Employees’ (ERS) and Teachers’ (TRS) Retirement Systems. No additional state funds are used to administer RSA-1.

Beneficiary Designation

It is very important to maintain current beneficiary designations. Federal tax laws dictate certain requirements for distributions of your RSA-1 account to your beneficiary(s) after your death. If you have not recently reviewed your beneficiary(s) designations, please do so as you prepare to terminate employment or retire. Your contingent beneficiary will only receive the funds if the primary beneficiary predeceases the contingent beneficiary. If you need to change your beneficiary or if your primary beneficiary dies, contact RSA-1 for a CHANGE OF INFORMATION form or download it from our Web site.

Change of Address

Having your current home mailing address on file with RSA-1 is very important. Many important documents are mailed to each participant, including your account statements. Please report any change of address to RSA-1 in writing only, either by letter or change of address form. The ADDRESS CHANGE NOTIFICATION form can be obtained from your payroll officer or downloaded from our Web site.

Catch-up Deferrals

If you did not defer the maximum deferral amount in the years beginning with 1986 and were eligible to participate, you may “catch-up” unused eligible amounts for one to three years if you are within three years of normal retirement age and are eligible for an unreduced pension.

The following limits apply:

Year	Catch-up Maximum
2007	\$31,000

Normal retirement age is age 60 with at least 10 years of service credit or an age you may retire and receive immediate unreduced benefits under your pension plan (i.e., 25 or 30 years). This age may be earlier than 60 but not later than 70 ½. You may make catch-up deferrals during the three calendar years prior to retirement or the three years prior to the year you become eligible to retire.

The following rules apply to the catch-up provision:

- ◆ The catch-up provision cannot be used more than once, whether or not you utilize the maximum catch-up deferrals in all three of the catch-up years.
- ◆ The designated catch-up period cannot be changed once you begin catch-up deferrals.
- ◆ You do not have to retire on the date indicated; however, the catch-up period based on the date cannot be changed.
- ◆ You may **not** catch-up during the calendar year in which you actually retire.
- ◆ Catch-up deferrals must be payroll deducted.

RSA-1 must approve the CATCH-UP PROVISION ELECTION AND WORKSHEET **before** catch-up deferrals can be made. This form is available on our Web site.

Sick and Annual Leave Deferrals

If you are eligible to receive payment for sick and annual leave at termination of employment, you may defer up to the maximum limit in the year you terminate employment. For example, if you retire in 2008 and receive payment for sick and annual leave, you can defer up to the limit of \$15,500 (\$20,500 for

age 50 and older) less any deferral you have already made to RSA-1 within that same calendar year.

If you have not made a deferral to RSA-1 in the calendar year of termination of employment, you may defer the full \$15,500 (\$20,500) for 2008. If you retire on January 1 of a year, you may defer up to the limit of the new calendar year. Deferring sick and annual leave payments to your RSA-1 account instead of receiving it in a lump-sum payment can save you 28% in taxes.

DROP Rollovers to RSA-1

RSA-1 accepts rollovers from your RSA DROP account once you have terminated employment.

- ◆ You must establish an account prior to the rollover.
- ◆ If you are not a member of RSA-1, complete the RSA-1 MEMBER RECORD form and the INVESTMENT OPTION ELECTION FOR DROP ROLLOVERS form. You may find forms by accessing our Web site or contacting RSA-1 or your payroll officer.
- ◆ Complete these forms, have them notarized and return to RSA-1 prior to terminating employment.
- ◆ If you are already a member of RSA-1, complete the INVESTMENT OPTION ELECTION FOR DROP ROLLOVERS form and return it to RSA-1 prior to termination of employment.

For information about your DROP distribution, read the ERS or TRS DROP Distribution brochure on our Web site or request it from either the ERS or TRS.

457 Transfers to RSA-1

RSA-1 accepts trustee-to-trustee transfers from other Section 457 plans. An RSA-1 account must be established prior to the transfer. Funds transferred from other Section 457 accounts must never have been from any source other than 457(b).

To transfer these funds:

- ◆ Complete the 457 TRANSFER TO RSA-1 form and the INVESTMENT OPTION ELECTION FOR 457 TRANSFERS form.
- ◆ The Trustee of the previous 457 plan must complete and sign Part II of the 457 TRANSFER TO RSA-1 form.
- ◆ Send the completed forms to RSA-1.

Availability of Funds

Conditions for Withdrawal

RSA-1 is not a savings account in which you make periodic withdrawals. Rather, it is a retirement account that is available only after you have either retired or otherwise terminated employment.

You may not withdraw your account unless you meet one of the following conditions:

- ◆ Separation from service through retirement or termination from employment
- ◆ The attainment of age 70 ½
- ◆ Unforeseeable Emergency
- ◆ Cash-out provision for small account balances

RSA-1 funds cannot be assigned or alienated. Distribution must begin no later than April 1 of the

calendar year following the calendar year in which you either attain age 70 ½ or retire, whichever is later.

Unforeseeable Emergency

An unforeseeable emergency is defined as follows:

- ◆ You or your dependent are faced with a severe hardship resulting from a sudden and unexpected illness or accident.
- ◆ You are faced with a severe hardship resulting from loss of property due to flood, fire, or windstorm.
- ◆ Other similar and extraordinary circumstances arising as a result of events beyond your control.

In case of withdrawals due to unforeseeable emergencies, payment may not be made if:

- ◆ The loss was protected by insurance.
- ◆ The loss can be satisfied by liquidation of the member's assets to the extent the liquidation of such assets would not in itself cause severe financial hardship.
- ◆ The loss can be satisfied by stopping payroll deductions to this plan.

In the event of emergency withdrawals described above, payments from your account can only be made to the extent reasonably necessary to satisfy the emergency.

These are the only conditions that permit you to withdraw your account for hardships. Hardships that do not fall into the unforeseeable category described above do not qualify for withdrawal. Withdrawals will not be allowed for buying a home,

college expenses or other similar purposes.

Providing the requested distribution qualifies as an emergency distribution, it can be taken at any time, whether or not you are in deferral status or distribution status.

If you think you qualify, complete the FINANCIAL HARDSHIP DISTRIBUTION REQUEST form located on our Web site or contact RSA-1 and request the form.

Cash-Out Provision

The Internal Revenue Service allows a cash-out provision if **ALL** the following conditions are met:

1. The account balance is \$5,000 or less.
2. There have been no deferrals into the account for 24 months prior to the cash-out distribution.
3. There have been no prior distributions other than hardship distributions.

Distribution of Funds

Distribution Options

Distributions must be at least annually in frequency. No interest will be paid on the monthly interest posting date after the account has been distributed in full. There is no penalty for early distribution from a Section 457 plan.

At the time of separation from service, you have the following five distribution options:

Option 1: Receive a lump-sum payment consisting of the balance in the account. If you choose to receive distribution of your funds in a lump sum, the entire amount must be distributed to you no later than April 1 of the calendar year following

the calendar year in which you either attain age 70 ½ or retire, whichever is later. The IRS requires RSA-1 to withhold 20% of the lump-sum distribution for federal income tax.

Option 2: Receive a partial distribution followed by equal monthly payments. If you choose to receive distribution of your funds in equal monthly payments, the distribution must begin no later than April 1 of the calendar year following the calendar year in which you either attain age 70 ½ or retire, whichever is later. Checks are mailed the last business day of the month.

Option 3: Receive a partial distribution and leave your balance in your RSA-1 account until you have reached age 70 ½.

Option 4: Receive a monthly disbursement, provided the monthly distributions comply with the limits imposed by Section 457 of the Internal Revenue Code.

Option 5: Delay distribution of funds until a future date at which time any one of the above choices may be made. Current IRS regulations require that distributions begin not later than April 1 of the calendar year following the calendar year in which the employee attains age 70 ½ or retires, whichever is later.

Beneficiary Payments

Contact RSA-1 for distribution questions about funds to the beneficiary(s).

Distribution Dates

Lump-Sum Payment

If you choose to receive distribution of your funds in a lump sum, the entire amount must be distributed to you no later than April 1 of the calendar year following the calendar year in which you either attain age 70 ½ or retire, whichever is later.

For example, if you reach age 70 ½ in 2007 and are retired, the deadline to receive the lump-sum payment is April 1, 2008. If you are age 70 ½ or older and still employed with an eligible agency, distribution begins immediately at retirement. The IRS requires RSA-1 to withhold 20% of the lump-sum distribution for federal income tax.

Equal Monthly Payments

If you choose to receive distribution of your funds in equal monthly payments, the distribution must begin no later than April 1 of the calendar year following the calendar year in which you either attain age 70 ½ or retire, whichever is later. Checks are mailed the last business day of the month.

These payments continue either:

- ◆ Over your life,
- ◆ Over your life and the life of your designated beneficiary, or
- ◆ Over a definite period (for example, five years) not extending beyond your life expectancy or your life expectancy and the life expectancy of your designated beneficiary.

Delayed Payments

If you wait to begin distribution until the calendar year following the calendar year in which you attain age 70 ½ (but no later than April 1 of that year), the required distribution for two years must be paid that same calendar year:

- ◆ One distribution by April 1 for the 70 ½ year, and
- ◆ One distribution by December 31 for the year following the 70 ½ year.

Beneficiary Payments

- ◆ If distribution begins **before** your death, any amount not distributed to you during your life will be distributed after your death to your beneficiary(s) in accordance with the requirements of the Internal Revenue Code and Regulations governing distributions.
- ◆ If distribution begins **after** your death, the distribution of the entire account must be made within 5 years of your death.

Except:

If the spouse is the beneficiary and the benefit commencement date is no later than December 31 of the calendar year you would have been 70 ½, the entire amount payable must be paid during a period not to exceed the life expectancy of the surviving spouse.

If a non-spouse is the beneficiary, the benefit commencement date must be no later than December 31 of the calendar year following the year of your death and the entire amount payable with respect to you must be paid during a period not to exceed the beneficiary's single life expectancy in the year after your death.

If the estate or a trust has been named as beneficiary, the distribution must be distributed within five years after your death. The trust may be permitted to be revocable while you are alive, provided that it becomes irrevocable by its terms upon your death.

Distribution Forms

Contact RSA-1 to request distribution forms.

Transfers to Purchase Permissive Service Credit

You may use your RSA-1 funds to purchase permissive service credit with a governmental defined benefit plan such as ERS and TRS. If you wish to purchase permissive service credit with the ERS or TRS, please contact the ERS or the TRS at 877-517-0020 for information on how to make this purchase. You must complete the IN-SERVICE TRANSFER form to purchase permissive service credit. This form is located on our Web site.

Transfers to Other Plans

RSA-1 allows transfers to other plans. You may roll over your RSA-1 funds to a Section 401(k), 403(b), 457 plan or a Traditional IRA if they are eligible to take a distribution.

Tax Information

Distributions of amounts previously deferred as well as interest earned are subject to federal income tax withholding. Amounts deferred after January 1, 1997, as well as any interest earned, will be subject to state of Alabama income tax upon distribution.

Withholding

At the time you apply for RSA-1 benefits, you will complete a form W-4P and A-4 Withholding Certificate. You may submit a new form W-4P or A-4 Withholding Certificate at any time. Distributions are subject to the withholding rules applicable to qualified plans. For lump-sum payments, federal regulations require a flat 20% withholding (this will also apply to withdrawals for unforeseeable emergencies). For periodic payments, withholding will be based on your marital status and the number of withholding allowances claimed. If a Withholding Certificate is not filed, withholding will be based on single filing status with no allowances.

Distribution

Deferred income and investment earnings distributed from RSA-1 will be taxed to you or your beneficiary as ordinary income in the year of distribution. RSA-1 payments to you and your beneficiaries are reported on a form 1099R in the year of distribution. There is no penalty for early distribution from a Section 457 Deferred Compensation Plan such as RSA-1 regardless of your age at the time of distribution.

For amounts deferred in 1996 and prior years the principal and interest are subject to federal income tax upon distribution, while only interest is subject to Alabama income tax upon distribution.

For amounts deferred in 1997 and years thereafter, the principal and interest are subject to federal and state of Alabama income tax upon distribution.

Special Tax Notice Regarding Plan Payments

This notice explains how to continue deferring federal income tax on your retirement savings in the PEIRAF Deferred Compensation Plan (RSA-1) and contains important information you will need before you decide how to receive your RSA-1 benefits. For complete tax information, consult the IRS and a tax advisor.

This notice is provided to you by RSA-1 because all or part of the payment that you will soon receive from the RSA-1 may be eligible for rollover by you to a traditional IRA or an eligible employer plan. A rollover is a payment by you or RSA-1 of all or part of your benefit to another plan or IRA that allows you to continue to postpone taxation of that benefit until it is paid to you. Your payment cannot be rolled over to a Roth IRA, a SIMPLE IRA, or a Coverdell Education Savings Account (formerly

known as an education IRA).

An eligible employer plan includes a plan qualified under Section 401(a) of the Internal Revenue Code, including a 401(k) Plan, Profit-sharing Plan, defined benefit plan, stock bonus plan, and money purchase plan; a section 403(a) Annuity Plan; a Section 403(b) Tax-sheltered Annuity; and an eligible Section 457(b) Plan maintained by a governmental employer (governmental 457 Plan). The RSA-1 is a governmental 457 Plan.

An eligible employer plan is not legally required to accept a rollover. Before you decide to roll over your payment to another employer plan, you should find out whether the plan accepts rollovers and, if so, the types of distributions it accepts as a rollover. You should also find out about any documents that are required to be completed before the receiving plan will accept a rollover. Even if a plan accepts rollovers, it might not accept rollovers of certain types of distributions. If this is the case, you may wish instead to roll your distribution over to a traditional IRA or to split your rollover amount between the employer plan in which you will participate and a traditional IRA. If an employer plan accepts your rollover, the plan may restrict subsequent distributions of the rollover amount or may require your spouse's consent for any subsequent distribution. A subsequent distribution from the plan that accepts your rollover may also be subject to different tax treatment than distributions from RSA-1. Check with the administrator of the plan that is to receive your rollover prior to making the rollover.

If you have additional questions after reading this notice, you can contact RSA-1 at 877-517-0020 or 334-517-7000.

Summary

There are two ways you may be able to receive an RSA-1 payment that is eligible for rollover:

1. *Direct Rollover*: Certain payments can be made directly to a traditional IRA that you establish or to an eligible employer plan that will accept it and hold it for your benefit, or
2. The payment can be *Paid To You*.

If you choose a *Direct Rollover*:

- ◆ Your payment will not be taxed in the current year, and no income tax will be withheld.
- ◆ You choose whether your payment will be made directly to your traditional IRA or to an eligible employer plan that accepts your rollover. Your payment cannot be rolled over to a Roth IRA, a SIMPLE IRA or a Coverdell Education Savings Account because these are not traditional IRAs.
- ◆ Your payment will be taxed later when you take it out of the traditional IRA or the eligible employer plan. Depending on the type of plan, the later distribution may be subject to different tax treatment than it would be if you received a taxable distribution from RSA-1.

If you choose to have a Plan payment that is eligible for rollover *Paid To You*:

- ◆ You will receive only 80% of the taxable amount of the payment, because RSA-1 is required to withhold 20% of that amount and send it to the IRS as income tax withholding to be credited against your taxes.
- ◆ The taxable amount of your payment will be taxed in the current year unless you roll it

over.

- ◆ You can roll over all or part of the payment by paying it to your traditional IRA or to an eligible employer plan that accepts your rollover within 60 days after you receive the payment. The amount rolled over will not be taxed until you take it out of the traditional IRA or the eligible employer plan.
- ◆ If you want to roll over 100% of the payment to a traditional IRA or an eligible employer plan, you must find other money to replace the 20% of the taxable portion that was withheld. If you roll over only the 80% that you received, you will be taxed on the 20% that was withheld and that is not rolled over.

YOUR RIGHT TO WAIVE THE 30-DAY NOTICE PERIOD: Generally, neither a direct rollover nor a payment can be made from the RSA-1 until at least 30 days after your receipt of this notice. Thus, after receiving this notice, you have at least 30 days to consider whether or not to have your withdrawal directly rolled over. If you do not wish to wait until this 30-day notice period ends before your election is processed, you may waive the notice period by making an affirmative election indicating whether or not you wish to make a direct rollover. Your withdrawal will then be processed in accordance with your election as soon as practical after it is received by RSA-1.

1. Payments That Can and Cannot Be Rolled Over

Payments from RSA-1 may be *eligible rollover distributions*. This means that they can be rolled over to a traditional IRA or to an eligible employer plan that accepts rollovers. Payments from RSA-1 cannot be rolled over to a Roth IRA, a SIMPLE IRA or a Coverdell Education Savings Account.

RSA-1 should be able to tell you whether your payment is an eligible rollover distribution. The following types of payments cannot be rolled over:

PAYMENTS SPREAD OVER LONG PERIODS: You cannot roll over a payment if it is part of a series of equal (or almost equal) payments that are made at least once a year and that will last for:

- ◆ your lifetime (or a period measured by your life expectancy), or
- ◆ your lifetime and your beneficiary's lifetime (or a period measured by your joint life expectancies), or
- ◆ a period of 10 years or more.

REQUIRED MINIMUM PAYMENTS: Beginning when you reach age 70½ or retire, whichever is later, a certain portion of your payment cannot be rolled over because it is a “required minimum payment” that must be paid to you.

UNFORESEEABLE EMERGENCY DISTRIBUTIONS: A distribution on account of an unforeseeable emergency cannot be rolled over.

DISTRIBUTIONS OF EXCESS CONTRIBUTIONS: A distribution that is made because legal limits on certain contributions were exceeded cannot be rolled over.

RSA-1 should be able to tell you if your payment includes amounts which cannot be rolled over.

II. Direct Rollover

A DIRECT ROLLOVER is a direct payment of the amount of your RSA-1 Plan benefits to a traditional IRA or an eligible employer plan that will accept it. You can choose a DIRECT ROLLOVER of all or

any portion of your payment that is an eligible rollover distribution, as described in Part I above. You are not taxed on any taxable portion of your payment for which you choose a DIRECT ROLLOVER until you later take it out of the traditional IRA or eligible employer plan. In addition, no income tax withholding is required for any taxable portion of your RSA-1 benefits for which you choose a DIRECT ROLLOVER.

DIRECT ROLLOVER TO A TRADITIONAL IRA: You can open a traditional IRA to receive the DIRECT ROLLOVER. If you choose to have your payment made directly to a traditional IRA, contact an IRA sponsor (usually a financial institution) to find out how to have your payment made in a DIRECT ROLLOVER to a traditional IRA at that institution. If you are unsure of how to invest your money, you can temporarily establish a traditional IRA to receive the payment. However, in choosing a traditional IRA, you may wish to make sure that the traditional IRA you choose will allow you to move all or a part of your payment to another traditional IRA at a later date, without penalties or other limitations. See IRS Publication 590, Individual Retirement Arrangements, for more information on traditional IRAs including limits on how often you can roll over between IRAs.

DIRECT ROLLOVER TO A PLAN: If you are employed by a new employer that has an eligible employer plan, and you want a DIRECT ROLLOVER to that plan, ask the Plan Administrator of that plan whether it will accept your rollover. An eligible employer plan is not legally required to accept a rollover. Even if your new employer's plan does not accept a rollover, you can choose a DIRECT ROLLOVER to a traditional IRA. If the employer plan accepts your rollover, the plan may provide restrictions on the circumstances under which you may later receive a distribution of the rollover amount or may require spousal consent to any subsequent distribution. Check with the

Plan Administrator of that plan before making your decision.

DIRECT ROLLOVER OF A SERIES OF PAYMENTS: If you receive a payment that can be rolled over to a traditional IRA or an eligible employer plan that will accept it, and it is paid in a series of payments for less than 10 years, your choice to make or not make a DIRECT ROLLOVER for a payment will apply to all later payments in the series until you change your election. You are free to change your election for any later payment in the series.

CHANGE IN TAX TREATMENT RESULTING FROM A DIRECT ROLLOVER: The tax treatment of any payment from the eligible employer plan or traditional IRA receiving your DIRECT ROLLOVER might be different than if you received your benefit in a taxable distribution directly from RSA-1. See the section below entitled “Additional 10% Tax May Apply to Certain Distributions.”

III. Payment Paid To You

If your payment can be rolled over (see Part I above) and the payment is made to you in cash, it is subject to a 20% federal income tax withholding on the taxable portion (state tax withholding may also apply). The payment is taxed in the year you receive it unless, within 60 days, you roll it over to a traditional IRA or an eligible employer plan that accepts rollovers. If you do not roll it over, special tax rules may apply.

Income Tax Withholding

MANDATORY WITHHOLDING: If any portion of your payment can be rolled over under Part I above and you do not elect to make a DIRECT ROLLOVER, the Plan is required by law to withhold 20% of the taxable amount. This amount is sent to the IRS as federal income tax withholding. *For example, if*

you can roll over a taxable payment of \$10,000, only \$8,000 will be paid to you because the Plan must withhold \$2,000 as income tax. However, when you prepare your income tax return for the year, unless you make a rollover within 60 days (see SIXTY-DAY ROLLOVER OPTION below) you must report the full \$10,000 as a taxable payment from the Plan. You must report the \$2,000 as tax withheld, and it will be credited against any income tax you owe for the year. There will be no income tax withholding if your payments for the year are less than \$200.

VOLUNTARY WITHHOLDING: If any portion of your payment is taxable but cannot be rolled over under Part I above, the mandatory withholding rules described above do not apply. In this case, you may elect not to have withholding apply to that portion. If you do nothing, 10% will be taken out of this portion of your payment for federal income tax withholding. To elect out of withholding, ask the Plan Administrator for the election form and related information.

SIXTY-DAY ROLLOVER OPTION: If you receive a payment that can be rolled over under Part I above, you can still decide to roll over all or part of it to a traditional IRA or to an eligible employer plan that accepts rollovers. If you decide to roll over, *you must contribute the amount of the payment you received to a traditional IRA or eligible employer plan within 60 days after you receive the payment.* The portion of your payment that is rolled over will not be taxed until you take it out of the traditional IRA or the eligible employer plan.

You can roll over up to 100% of your payment that can be rolled over under Part I above, including an amount equal to the 20% of the taxable portion that was withheld. If you choose to roll over 100%, you must find other money within the 60-day period to contribute to the traditional IRA or the eligible employer plan to replace the 20% that was withheld.

On the other hand, if you roll over only the 80% of the taxable portion that you received, you will be taxed on the 20% that was withheld.

Example: Your payment that can be rolled over under Part I above is \$10,000, and you choose to have it paid to you. You will receive \$8,000, and \$2,000 will be sent to the IRS as income tax withholding. Within 60 days after receiving the \$8,000, you may roll over the entire \$10,000 to a traditional IRA or an eligible employer plan. To do this, you roll over the \$8,000 you received from the Plan, and you will have to find \$2,000 from other sources (your savings, a loan, etc.). In this case, the entire \$10,000 is not taxed until you take it out of the traditional IRA or an eligible employer plan. If you roll over the entire \$10,000, when you file your income tax return you may get a refund of part or all of the \$2,000 withheld.

If, on the other hand, you roll over only \$8,000, the \$2,000 you did not roll over is taxed in the year it was withheld. When you file your income tax return, you may get a refund of part of the \$2,000 withheld. (However, any refund is likely to be larger if you roll over the entire \$10,000.)

ADDITIONAL 10% TAX MAY APPLY TO CERTAIN DISTRIBUTIONS: Distributions from RSA-1 are generally not subject to the additional 10% tax that applies to pre-age-59½ distributions from other types of plans.

The additional 10% tax does not apply to distributions from RSA-1 or any other governmental 457 Plan, except to the extent the distribution is attributable to an amount you rolled over to the governmental 457 Plan (adjusted for investment returns) from another type of eligible employer plan or IRA. Since RSA-1 does not accept rollovers

from any other plan including other governmental 457 Plans, the additional 10% tax does not apply to a distribution from RSA-1.

In addition, any amount rolled over from RSA-1 to another type of eligible employer plan or to a traditional IRA will be subject to the additional 10% tax if it is distributed to you before you reach age 59½, unless an exception applies.

Exceptions to the additional 10% tax generally include (1) payments that are paid as equal (or almost equal) payments over your life or life expectancy (or your and your beneficiary's lives or life expectancies), (2) payments that are paid from an eligible employer plan after you separate from service with your employer during or after the year you reach age 55, (3) payments that are paid because you retire due to disability, (4) payments that are paid directly to the government to satisfy a federal tax levy, (5) payments that are paid to an alternate payee under a qualified domestic relations order, or (6) payments that do not exceed the amount of your deductible medical expenses. These exceptions may be different for distributions from a traditional IRA. See IRS Form 5329 for more information on the additional 10% tax.

IV. Surviving Spouses, Alternate Payees and Other Beneficiaries

In general, the rules summarized above that apply to payments to employees also apply to payments to surviving spouses of employees and to spouses or former spouses who are alternate payees. You are an alternate payee if your interest in RSA-1 results from a qualified domestic relations order, which is an order issued by a court, usually in connection with a divorce or legal separation.

If you are a surviving spouse or an alternate payee, you may choose to have a payment that can be

rolled over, as described in Part I above, paid in a DIRECT ROLLOVER to a traditional IRA or to an eligible employer plan or paid to you. If you have the payment paid to you, you can keep it or roll it over yourself to a traditional IRA or to an eligible employer plan. Thus, you have the same choices as the employee.

If you are a beneficiary other than a surviving spouse or an alternate payee, you may have the payment paid to you, or you may choose a DIRECT ROLLOVER, but only to an Individual Retirement Account or Individual Retirement Annuity established for that purpose.

If you are a surviving spouse, an alternate payee or another beneficiary, your payment is generally not subject to the additional 10% tax described in Part III above, even if you are younger than age 59½.

How To Obtain Additional Information

This notice summarizes only the federal (not state or local) tax rules that might apply to your payment. The rules described above are complex and contain many conditions and exceptions that are not included in this notice. Therefore, you may want to consult with a professional tax advisor before you take a payment of your benefits from your RSA-1 account. Also, you can find more specific information on the tax treatment of payments from qualified employer plans in *IRS Publication 575, Pension and Annuity Income*, and *IRS Publication 590, Individual Retirement Arrangements*. These publications are available from your local IRS office, on the IRS's Internet Web Site at www.irs.gov, or by calling 800-TAX-FORMS.



The RSA-1 Deferred Compensation Plan

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